

PSB D-29

PSYCHOLOGICAL STRATEGY BOARD
708 Jackson Place, N.W.
Washington 25, D.C.

FEB 27 1953

MEMORANDUM

TO: Mr. T. Mitchell Ford
Central Intelligence Agency

SUBJECT: "An Evaluation of the Psychological Effect
of U.S. National Effort in Italy" (PSB D-29)

At its meeting of January 15, the Board considered a draft of PSB D-29, bearing the above-quoted title. The Board noted the paper with interest but did not approve it. At the same time, the Board requested that the paper be reworked.

Accordingly, I attach, for your information, a copy of PSB D-29 as reworked by the staff after consultation with the interested agencies and departments. The staff will continue to give consideration to any need for further revision of the paper.

Charles E. Johnson
Executive Officer

Enclosure:

PSB D-29, February 26, 1953, Copy No. 10, 11 and 12

NSC review(s) completed.

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Feb. 26, 1953

COPY NO. 10

PSYCHOLOGICAL STRATEGY BOARD
WASHINGTON, D. C.

AN EVALUATION OF THE PSYCHOLOGICAL EFFECT
OF U.S. NATIONAL EFFORT IN ITALY

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February 26, 1953

AN EVALUATION OF THE PSYCHOLOGICAL EFFECT
OF U.S. NATIONAL EFFORT IN ITALY

NOTE BY THE SECRETARY

At its meeting of January 15, the Board considered a draft of the subject paper. The Board noted the paper with interest but did not approve it. At the same time, the Board requested that the paper be reworked.

The paper has been reworked by staff after consultation with interested departments and agencies. The staff will continue to give consideration to any need for further revision of the paper.

Charles E. Johnson
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Secretary to the Board

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PSYCHOLOGICAL STRATEGY BOARD
WASHINGTON 25, D.C.

W.M. Kirk

Memorandum of January 15, 1953

MEMORANDUM FOR: The Honorable David K. E. Bruce, Under Secretary of State
SUBJECT: Draft of "An Evaluation of the Psychological Effect of U.S. National Effort in Italy" (PSB D-29)

I attach a draft of PSB D-29, bearing the above-quoted title, for consideration and appropriate action by the Board at its meeting on January 15, 1953.

This document had its origin in the Board's decision on June 12, 1952, to authorize a "test case" PSB evaluation on one geographical area. Pursuant to this decision, the staff transmitted to the Board proposed terms of reference for an evaluation on Italy (PSB D-29, July 17, 1952), and the Board indicated that the project should be carried out. In view of the Board's desire that the project not include field trips or attitude surveys, the present document is based solely on contributions by the member departments and agencies and by the Office of the Director for Mutual Security.

In its final form, after re-working it at a later date, I believe that this evaluation will be useful as expressing a consensus concerning the psychological impact of the total U.S. effort in Italy. It also represents a step toward the development of methods and procedures to fulfill the evaluating responsibilities of the Board.

I recommend acceptance of this evaluation as a first step of this nature in the development of the PSB evaluation function.

S/Alan G. Kirk

Alan G. Kirk
Director

Enclosure:

PSB D-29, dated January 14, 1953

(Note: Identical Memoranda sent to Mr. Foster and General Smith.)

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WASHINGTON, D.C.AN EVALUATION OF THE PSYCHOLOGICAL EFFECT OF U.S.
NATIONAL EFFORT IN ITALY

This paper, which is based upon contributions by the Department of State, Department of Defense, Central Intelligence Agency and Mutual Security Agency, is an attempt to assess the psychological impact and results of our national effort in Italy from 1945 to the present.

The paper is presented in four sections: a summary; a brief chronological account of major policies and developments respecting Italy since 1945; a more detailed analysis of the relationship between U.S. policies and programs and major Italian problems of a psychological nature in the military, economic and political spheres; a discussion of psychological operations.

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SECTION I

Summary and Conclusion

The psychological impact of U.S. diplomatic, economic and military policies and programs, supported by psychological operations has aided materially--perhaps decisively--achievement of the following situation in Italy:

1. There remains in power a broadly representative, moderate, anti-Communist government friendly to the United States. The psychological impact of American economic programs, of the joint American-British-French declaration on Trieste and of other forms [redacted]

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[redacted] was perhaps decisive in beating back the Communist bid for power in 1948.

2. Conversely, the Italian Communist Party, although still very strong, has been so circumscribed in its freedom of action that it now poses a less immediate threat to the security of the country.

3. The Italian Government is an enthusiastic supporter of the North Atlantic Treaty and has been a leader in steps towards economic, political, and military integration of Europe.

4. The Italian Government gives support to basic U.S. foreign policy. Despite Communist influence, there exists among the Italian people a large reservoir of good will for the United States and for Americans.

Where popular or official Italian attitudes have run counter to our national objectives, the psychological impact of our policies and programs has been less pronounced;

1. The Italian Government has been slow in some cases and hampered in others in undertaking various basic reforms deemed essential to long-run

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economic health.

2. The willingness of Italians to resist and prevent Communist subversive activities such as political strikes has been strengthened, but many Italians still look on the Italian Communist Party as a respectable party.

In three respects the psychological impact of U.S. policies and actions have handicapped the achievement of objectives with respect to both the Italian Government and the Italian people. Furthermore, the Italian Government, which has been identified by the Italian voters with the United States, has lost popular support because of these failures.

1. Our failure to implement the Declaration on Trieste, which had such a marked influence on the 1948 elections, has rankled in the minds of all Italians. Together with the concurrent growth in our support of Yugoslavia, the Trieste situation has aggravated our psychological problems in Italy.

2. Despite a number of efforts to expand opportunities for Italian emigration, U.S. immigration quotas for Italians remain a continuing psychological handicap as well as physical barrier. Recent visa policy has been a further source of Italian resentment against the U.S.

3. U.S. restrictions on certain imports have inspired resentment in Italians who feel that Italy must export more to the U.S. if she is ever to be able to exist without U.S. aid.

Conclusion

U.S. policies and programs in support of the present Italian Government have contributed substantially to the attainment of our national objectives in Italy. Nevertheless, the situation remains grave, and withdrawal of our support might well lead to collapse of the present Italian Government. It follows that there should be no slackening of our effort in the crucial period ahead.

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SECTION II

A Chronological Account

1945-46.

World War II ended with Allied forces occupying Italy, which had been granted the status of co-belligerent following the Armistice of 1943. It was U.S. and U.K. policy to allow the Italian Government a wide measure of freedom in the establishment of democratic government and the rehabilitation of economic and social life. Liberated areas had been turned over to the Italian Government for administration and military government had been withdrawn as rapidly as possible.

In its first post-war winter, Italy was faced with the problem of recovering from two paralyzing decades of Fascism capped by invasion, and, in a sense, civil war. The country had suffered an overwhelming military defeat, Allied troops were in occupation; the peace treaty was yet to be negotiated; law and order were yet to be reestablished; industry and trade were thoroughly disrupted; and the governmental future was still unknown. During 1945-46, the Italians staggered through these difficulties on a day-to-day basis. The Government remained in the hands of a coalition of anti-Fascist parties, including the Communists who at that time were joined in a war-created "united front".

U.S. policy at this time had as its long-range objective "enabling Italy to become a constructive element in a peaceful Europe." Economic relief proceeded on a piece-meal basis through private organizations, UNRRA and direct U.S. Government programs for providing essential commodities. These programs prevented actual starvation, but did not provide the basis for real recovery. Moreover, they did not prevent a sharp deterioration in the political climate during 1946. The Communists, still in the role

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of collaborators, gradually shifted towards outright obstructionism and denunciation of the Allies and the democratic moderate parties. In the national elections in June 1946, the Communists won some 19 percent of the vote, the Socialists 21 and the Christian Democrats 35 percent. Municipal elections in November showed an accelerated trend to the left. The economic situation also worsened rapidly.

Negotiation of the Peace Treaty, which imposed many sacrifices upon Italy, was bitterly resented by many Italians who felt that their share in the defeat of Germany had not been taken into sufficient account. The U.S. attempted to counteract the developing mood of anger and despair by increasing its diplomatic support of the Italian Government, by receiving an official visit from DeGasperi, by concluding a commercial agreement with Italy and by continuing economic aid. However, the current seemed strongly against us.

1947-48

The year 1947 marked the low point in Italy's post-war fortunes. DeGasperi, goaded beyond endurance by the Communists' tactics, finally managed to eliminate them from the Government in May. The Communists thereupon launched a nationwide campaign of strikes, riots and individual and collective violence designed to sabotage recovery, destroy public confidence and prepare the way for a legal or possibly violent overthrow of the government. In this campaign they were considerably strengthened by their control over all organized labor, cemented at the first post-war convention of the unified labor organization, the CGIL, in May. Also helpful to the Communists was the mounting inflation and, in December, the withdrawal of remaining Allied troops in accordance with terms of the treaty.

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Despite certain counteracting developments--such as a split-off of a minority of Socialists from the Communist-led "united front", halt to the inflationary spiral brought about by massive imports and sweeping credit restrictions, approval of the new Constitution and U.S. consideration of the European Recovery Program--circumstances led to a profound fear late in 1947 both in Italy and abroad that the Communists had a very good chance of winning power in the spring elections of 1948.

In this situation, the U.S. Government determined that it should do whatever it could do to: (1) preserve the existence of Italy as an independent, democratic state, friendly to the U.S. and capable of effective participation in the effort to withstand Soviet expansion and Communist infiltration and (2) support the current non-Communist government in maintaining public order and authority against the extreme left, and prevent a Communist-Socialist bloc victory in the elections or the seizure of power by these forces. Therefore, it was decided to do what we could to foster the economic recovery of Italy and a rapid rise in the standard of living.

Actions in pursuance of these policies included stepped-up visits of American warships to Italian ports; official statements stressing that Italy would not receive U.S. economic aid should the Communists come to power; clear indications of support for moderate anti-Communist political forces, and assistance to Italian police forces. Private groups in the U.S., with official encouragement, helped through gift-package campaigns, letter-writing campaigns, and radio broadcasts. Additionally, the U.S., U.K., and France joined in a Declaration to the effect that the provisions of the Peace Treaty with regard to Trieste had proved unworkable and that the entire Free Territory should be returned to Italy.

Internationally, the threat of a Communist revolution was dramatized for the Italians by the Czech revolution in February. All of these factors,

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together with a massive campaign by the moderate parties and Catholic lay groups in Italy, helped to give the moderates a resounding victory in the April elections. Combined they won 65 percent of the popular vote, the Christian Democrats alone receiving nearly 50 percent.

1948-52

Italian confidence, however, did not assert itself until, in the wake of the elections, the government proved itself capable of handling any Communist resort to violence. Disorders and a national strike engineered by the Communists following the attempt on Togliatti's life on June 14, 1948 served to demonstrate that the government's security forces were in most cases able to keep control, and that the workers would not follow the Communists blindly in semi-insurrectionary strikes. It was then that Catholic dissidents broke away from the CGIL to establish the anti-Communist Free Confederation of Italian Workers. (The present anti-Communist union, CISL, formed in 1950, is composed of members of the Free Confederation of Italian Workers and republican and moderate socialist labor groups who split with the CGIL in 1949. A second anti-Communist labor organization is the UIL made up of republican and democratic socialist labor groups which refused to join with the predominantly Catholic CISL.) Finally, Congressional approval of the Marshall Plan assured the Italians of substantial economic aid.

With the consolidation of the democratic victory, U.S. policy evolved in terms of the following main objectives:

1. Maintenance in power of a broadly representative, moderate, anti-Communist democratic government friendly to the U.S.
2. Encouragement of friendship for the U.S. and solicitation of the support of the Italian Government and the majority of the Italian people for basic U.S. foreign policy.

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3. Encouragement of economic and political integration of Italy into the European and North Atlantic Communities and toward full fledged membership in the community of nations.

4. Strengthening of the potential of the Italian armed forces within the limits of the Peace Treaty.

5. Encouragement of Italian economic recovery and of certain lasting economic and social reforms essential to making Italy a viable economic unit and to the establishment of long-run stability in Italy.

6. Strengthening of Italian democracy and of the will to resist Communist subversion especially through encouragement to anti-Communist labor unions.

7. Achievement of friendly and satisfactory adjustment of our bilateral problems.

The Marshall Plan contributed substantially to Italian economic recovery and thus achieved in large part its chief objective. Italian production surpassed the 1939 level, as did the standard of living for the fully-employed. However, unemployment and under-employment have remained chronic throughout the period, and the Italian Government's various efforts to deal with unemployment have barely succeeded in preventing its increase. Progress on basic economic, fiscal and social reforms has been limited although important.

International developments also contributed to the consolidation of Italian confidence that the Communist threat, both external and internal, was not beyond control. Yugoslavia's defection from the Communist bloc early in 1948 relieved the immediate threat from the East, although subsequent developments led to new difficulties in Italian-Yugoslav relations. Creation of the North Atlantic Treaty Organization, including Italy, committed the U.S. to defend Italy in the event of Soviet aggression and U.S. rearmament backed up that commitment. The military aid program beginning in 1950 and

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the removal of certain restrictive military provisions of the Peace Treaty in 1951 laid the basis for an Italian defense structure. Approval of the Schuman Plan signaled a move toward greater European integration which might bring Italy both economic benefits and increased security.

Internally, by early 1951 the Communists returned to tactics of moderation and legality, preserving their dominant position in the labor movement. In the 1951-52 local elections their support at the polls increased proportionately over the 1948 national election. The government has taken steps against the Communists to preserve security, but it has failed to strike at the financial and organizational bases of the party. With the approach of the 1953 elections, DeGasperi has demonstrated a greater willingness to press for additional repressive measures against the Communists--measures still aimed primarily at the subversive activities of the party.

With the attack on Korea, a new set of conditions developed. U.S. resistance in Korea helped to convince the Italians that they could count on us to fight should the Soviets attack Europe. At the same time, the shift in emphasis of our aid program from economic reconstruction to defense support, with its corollary demand for a sizable Italian defense effort, encountered resistance both from those who felt Italy could not afford a defense effort of the magnitude urged by the U.S. Economically, the Korean conflict brought a renewal of inflationary pressures, which served to confirm the government in its restrictive credit policy.

Currently, the Italian economic picture continues to be uncertain. Although industrial activity has turned upward after a mid-year slump, unemployment has increased somewhat from a year ago. Large offshore procurement purchases under the Mutual Security Program are expected to counteract this situation, although only to a minor extent. The Communists and allied parties have maintained their voting strength and indeed enlarged it, while the

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extreme rightist parties have grown rapidly, both at the expense of the Center. The decline in the strength of the moderate coalition can be traced to a normal attrition of power and the failure of the Government to solve the basic social and economic problems of Italy.

SECTION III

Major Policies and Problems

POLITICAL DEVELOPMENTS

During the past seven years, Italy's internal political problems have been inextricably bound up with the Communist issue. In a sense, the Communist subversive threat internally and the Soviet threat externally have done more to shape Italian political affairs and U.S. policy responses than has any other single influence.

It must be recalled that the Italian Communist Party (PCI) was in a most favorable position at the end of World War II. Communist partisans had taken a leading role in the war-time resistance movement and shared with other anti-Fascist groups a general popular esteem, both in Italy and abroad. As in France, a coalition government including the Communists and their allies among the Socialists seemed at that time to be a natural development.

Failure on the part of the Italian public during the period 1944-1947 to recognize the threat implied in this situation contributed significantly to the growth of the PCI's power. During the period in which they had a relatively free hand, the Communists utilized every means of infiltrating the government, consolidating their control over organized labor, subverting Italian Socialism to their authority, and extending their popular appeal through agitation and propaganda. With the exclusion of the PCI from the government and the shift from its moderate, cooperative tactic to one of violently attacking the Center, the danger became apparent to the Italian public. By this time, however, there was grave doubt that the situation could be saved.

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The Communists played skillfully upon the prevailing mood of popular despair compounded by the country's economic plight and the damage done to national confidence by Italy's overwhelming defeat in war and the terms of the Peace Treaty. On the other hand, the Christian Democrats, strongly supported by the Catholic Church, made effective use of U.S. moral and material support, evidence of the PCI's subservience to Moscow and the broad ideological-religious argument of incompatibility between Catholicism and atheistic Communism.

In this situation, U.S. policies and programs were aimed at supporting the moderate coalition led by the Christian Democrats in order to implement U.S. policy towards Italy which, among other things, was to preserve Italy as an independent democratic state. Our shows of strength, our promises of greater economic aid conditioned upon defeat of the Communists and our various private propaganda efforts can be credited with a major and perhaps decisive influence on the election outcome. Our most important action, and perhaps the only case when psychological considerations actually determined U.S. policy on an important subject pertaining to Italy, was the Declaration of March 20, 1948 on Trieste. The statement caused a tremendous sensation in Italy, and contributed substantially to the Center victory.

Since 1948, various political and social weaknesses have reinforced Italy's economic difficulties. The absence of a strong democratic parliamentary tradition; cultural backwardness and illiteracy, especially in the South; widespread cynicism toward government; a lack of citizenship responsibility; and traditions of violent political and social action prevailing in some areas, have increased the difficulties for democratic parties. Although Italy's ex-enemy status impeded a return of national pride and confidence, stabilization of democratic government and increasing Italian participation in the community of free nations, especially the Atlantic Community, have

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greatly enhanced morale. The experience of wartime disaster and defeat has, moreover, left a widespread desire for peace and a reluctance to make economic sacrifices or take military risks, especially when these are regarded as competitive with social and economic improvements and reforms. The lack of social consciousness among upper class elements has exacerbated class warfare in industry and agriculture.

In this atmosphere, the Italian Communist Party has developed into a mass organization (1,800,000 members) with a fairly broad popular appeal. It has a disciplined, conspiratorial leadership with a sizable para-military organization, and an ample supply of funds. The party has capitalized upon Italian labor's traditional vulnerability to class appeals and anti-clericalism to consolidate its leading position among the workers. By its identification with anti-Fascism, nationalistic goals, the "peace" campaign and, above all, the narrow economic interest of the average Italian, the PCI has built a broad popular following which, though not strongly doctrinaire in its loyalty, regards the Communist party as a respectable and effective medium for political action, and indeed as the only effective political force with the worker's interest at heart. Since its departure from the government in 1947 the party has enjoyed an additional psychological asset in the average Italian's traditional attitude of hostility to government itself.

In contrast the Christian Democrat Party, leader of the moderate coalition, is a loosely organized democratic "rainbow party" inspired by Catholic social principles. It benefits in winning the continued support of a large group of voters from its high degree of internal party discipline and its tendency to present a united front to the world, all of which inspires confidence in the voter that it constitutes an effective defense against the Communist menace. This being the case it has won the support, in addition to the 30 or so percentage of basically Catholic party voters, of a varying percentage of persons interested principally in seeking the best possible defense against the Communist and Fascist extremes.

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Propagandawise the Christian Democratic Party has suffered in its relations with the public from a basic unwillingness to make detailed long-range plans, its approach to government being essentially a month-to-month, or at least year-to-year, assessment of necessities and possibilities. This often results in deferment of action on problems until strong pressures for such action have built up, a circumstance which often arouses resentment among the electorate. Being a broadly based center party, without the cohesion of extreme parties to the right and left, it generally seeks the path of compromise, but it has not hesitated on occasion when it saw the necessity and possibility for action to move in the face of the wishes of its component groups. (Thus in the questions of tax reform and land reform it incurred the opposition of right-wing elements; on credit policies it has adhered to its conservative approach in the face of criticism from the left wing.) The party's identification with the church is at once a source of considerable strength and of some weakness. Given the party's almost exclusive responsibility for the policies of the present government, the continuation of grave economic problems is inevitably blamed by many on the party itself. The party is also often criticized for an excess of caution and, on many occasions, for mal-administration. These criticisms are part of the natural forces of attrition suffered by any government in power; they have resulted in a certain decrease in the party's popular support.

During this period, the psychological impact of most U.S. policies and programs vis-a-vis Italy unquestionably helped to maintain the DeGasperi Government in power and to prevent any greater deterioration in its popular support. The Marshall Plan led to a degree of economic recovery without which public confidence in the government and support for the Government's pro-Western policy might have collapsed. U.S. encouragement of Italian participation in the economic and political integration of the Western

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European community, as in our support for Italian membership in NATO over British objections, helped to restore Italian national pride, redounding to the government's psychological advantage. Similarly, our consistent support for Italy's application for UN membership (blocked by Soviet veto) and our concurrence in the release of Italy from the restrictive military provisions of the Peace Treaty, added to the government's popular appeal. All of these steps likewise encouraged Italian friendship for the U.S. and support of basic U.S. foreign policy.

One issue in which U.S. policy since 1950 seems to have had a negative psychological effect upon our tactic of maintaining the moderate democratic coalition in power has been the disposition of Trieste and the corollary Yugoslav question. As mentioned earlier, the joint Declaration of 1948 proposing the return of Trieste to Italy was greeted enthusiastically by all Italians. Almost immediately thereafter, however, Yugoslavia defected from the Soviet camp, relieving Italy of an immediate external Communist threat, yet at the same time complicating our relations with the Italians.

As developing strategic requirements caused us to channel increasing economic and military aid to Yugoslavia, Italian resentment and fear for its claims upon Trieste mounted. The Italian Communists and neo-Fascists seized upon the continuing failure to implement the Declaration of 1948 to denounce both the government and the U.S. So strong has been Italian sentiment regarding Trieste that all parties have climbed aboard the issue, demanding an early pro-Italian settlement. Yugoslavia, meanwhile, has become no less adamant in its claim upon the territory. Under the circumstances, the U.S. has sought to bring about a compromise settlement, on a basis of bilateral negotiation, but so far without success. Failure to achieve a satisfactory settlement leaves the DeGasperi Government open to continuing attack from left and right extremists.

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ECONOMIC DEVELOPMENTS

As already indicated, Italy's early post-war economic paralysis called forth a series of U.S. and UNRRA aid measures aimed at countering disease and unrest. It was not until the U.S. launched the European Recovery Program in 1948, however, that we undertook a systematic program designed to get at some of the basic ailments of the Italian economy. Economic recovery, economic cooperation and economic reform were our interrelated objectives. Subsequently, with the development of the Mutual Security Program in 1951, emphasis was shifted to provide for the military requirements of Western and Italian defense against possible Soviet aggression, although in view of the continued severity of Italy's economic and political problems the development of Italian military strength is even now not the exclusive aim of U.S. efforts.

As noted, the commodity relief and industrial recovery brought about by ERP had a considerable salutary impact upon the attitudes of Italians. Moreover, ERP's emphasis upon the cooperative aspects of economic activity laid the groundwork for Italy's increasing support of European integration and Western objectives in general. The current military phase of economic assistance has been less successful in that it has incurred the resistance of those Italians who are less disturbed by any threat of Soviet aggression than by their own economic and social problems. In general, however, our aid program has been a major factor in preventing a revolution in Italy.

Considerably less success is noted in promoting substantial progress toward long-range economic reforms, which are believed necessary to the attainment of a viable and stable Italian economy. Psychological factors are among the leading influences in this situation, which has tended to perpetuate Communist strength while contributing largely to the loss of government strength. Following are details and difficulties of some of the reforms encouraged by our economic authorities:

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1. Offshore Procurement: Non-Communist Trade Unions.

Insofar as the offshore procurement and other military production programs have made use of idle plant facilities and created additional employment opportunities, they have made a psychological contribution to the maintenance and improvement of Italian morale. However, the policy of utilizing these programs to strengthen Italy's non-Communist trade unions, the CISL and UIL, at the expense of the CGIL, has been pursued against heavy odds.

The CGIL (3,500,000 members) overshadows the CISL (1,200,000 members) and the UIL (125,000 members). Although the latter have won the right to participate on an equal basis with the CGIL in collective bargaining, they are still too weak to make much headway against the CGIL, especially in industrial plants capable of producing the items required by the OSP program.

Underlying this situation is the class division which is marked by mutual hostility between Italian industrialists and the trade unions. The CGIL, as the strongest of the unions, has benefitted from the willingness of many employers to deal with the CGIL, in some instances paying it blackmail as the price of labor peace. At the same time, anti-clericalism has militated against growth of the CISL, which is identified with the Christian Democrats and clerical influence. Lack of strong leadership at the local level and effective appeal to the mass of workers has also limited growth in the strength of the non-Communist unions.

Progress in the utilization of economic aid to strengthen the CISL and UIL and to weaken the CGIL has been spotty. Some contribution toward this objective, however, has been made by special operations.

2. Counterpart and Credit: Land Reform

The U.S. veto power over the Italian Government's expenditures from counterpart funds has provided a potential lever for advancing national objectives in Italy. U.S. encouragement of land reform paved the way for

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enactment, in 1949, of a generally satisfactory land reform law. Complexity of the problem, combined with the government's timidity, slowed down early implementation of the law, but the land reform program is now rapidly becoming a political asset for the government. However, aristocrats who are faced with the loss of land have been alienated. The PCI has continually attacked the program as inadequate and sought electoral strength by extravagant promises of a more equitable division of the land.

The Fund for Development of the South, established by the government to complement the land reform program at first made slow progress. Nevertheless, use of counterpart funds for various industrial, agricultural, public works and other projects has had some scattered and favorable impact.

The government has practiced a policy of extreme financial conservatism, pointing constantly to the peril of renewed inflation. Thus the government continues to react negatively or to yield very slowly to U.S. suggestions for a more liberal credit policy and for the use of counterpart funds for economic development.

3. Production Assistance Program.

U.S. economic assistance to Italy has been accompanied by a major effort to stimulate interest in various union-management cooperative projects aimed at increasing industrial production. This effort has run head-on into Italy's traditional adherence to the notion of a restricted economy characterized by high prices and low wages, and the equally traditional acceptance of the continuing conflict between business and labor. Small markets, low production, the habit (accepted by management, government, church, and labor alike) of retaining half-idle people on the payroll, and extremely low wages eked out through illogical bonus systems are typical of Italian industry.

Even the reaction on non-Communist labor to the program has been lukewarm. The CISL and UIL are reluctant to support productivity schemes

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without some assurance (which is difficult to give) that their members will share in the benefits and will not suffer layoffs resulting from increased production in a situation of limited markets.

A few firms are cooperating in the program. It is hoped that a series of pilot projects may eventually take root and set a wider pattern in Italian industry.

4. Tax Reform.

U.S. economic authorities have also sought to encourage a basic reform in the Italian tax system. In 1950 an important first step was taken when the government introduced a self-assessment system in income taxation. However, the tax structure is still dominated by a dependence upon heavy consumption taxes and, secondarily, property taxes. The failure of Italians to pay taxes if they can avoid it is related to their lack of any real sense of public responsibility and their generally cynical attitude toward government.

5. Emigration.

U.S. economic assistance, in its attempt to alleviate some of the basic ills of the Italian economy, has also tried to promote emigration as one of the answers to the nation's chronic unemployment problem. Unemployment stands at about 2,000,000 in a total working force of 20,000,000. Thus, the prospects of emigration hold the highest priority in the minds of Italians of all classes. In part, at least, public interest in emigration as a solution to the country's growing population and continuing unemployment arises from the fact that other countries must assume the lead. The emigration issue provides a means for shifting some of the blame for Italy's economic plight to other shoulders.

In this connection, U.S. immigration policy has been a constant irritant to the Italians. The quota system, which sharply limits Italian emigration

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to the U.S., bears the implication that Italians are undesirable immigrants. Further our visa regulations for visitors have damaged our reputation by harassing, delaying or excluding outright some Italians of former Fascist or Communist affiliation who are now honored members of the democratic forces in Italy.

The U.S., however, is not alone in its unwillingness to increase its quota for potential Italian immigrants. Despite U.S. contributions through ILO, IRO, and the recently established PICMME, little substantial progress has been made in increasing the receptivity of other countries to Italian immigration.

MILITARY DEVELOPMENTS

Behind all of the military developments affecting Italy since 1945 lies the profound psychological impact of the war upon the Italian people. The quick collapse of Italian forces after the Allied invasion of Sicily and southern Italy was followed by 18 months of bitter fighting with the retreating Germans, in which certain areas south of Bologna were devastated. Italy was all but broken by her crushing defeat.

At the same time, U.S. policies and programs dating from the acceptance of Italy as a co-belligerent helped to ameliorate somewhat the general effects of the war. The rapid transfer of administrative control from Allied Military Government to the Italian Government, the rapid withdrawal of the majority of U.S. troops following the German surrender, and the supply of various military equipment and funds to the Italian Government helped to counteract somewhat the post-surrender mood of defeatism.

It is felt that lack of clear-cut national programs aimed at blocking the Communists in the immediate post-war period contributed to the growth of the PCI. In conformity with national policy at the time, AMG was

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primarily concerned with the security of the occupying forces and their lines of communication. In retrospect, it can be seen that more attention given to the problems of public administration and of economic and social reconstruction might have helped to curb the Communists. When U.S. policy did shift, however, military assistance in the strengthening of Italy's internal security forces, various shows of strength and the return to Italy of the reconstructed Ciampino airport at Rome had a favorable psychological impact which contributed to the victory of moderate parties in the 1948 elections. Withdrawal of remaining U.S. occupation forces in December 1947, although it made more difficult the immediate problem of internal security, also was a source of satisfaction to many Italians. Since 1948, U.S. military policies and programs have had as their general objective the strengthening of Italian will and capacity to resist external Communist aggression and internal subversion. Some progress has been made, despite substantial psychological handicaps.

The Mutual Defense Assistance Program, authorized in 1949, has allocated well over a billion dollars worth of military end-item assistance to Italy, with shipments through June 30, 1952 totaling \$180,000,000. Offshore procurement contracts worth almost \$180,000,000 have been placed in Italy, contributing to economic activities which have bolstered morale.

Our Military Assistance Advisory Group, established in 1950, has assisted Italian defense preparations, especially in the training of officers and non-commissioned officers, some of whom have been brought to the U.S. for schooling. The psychological potential of this program has been exploited with good propaganda.

By bi-lateral agreement between the U.S. and Italy, the U.S. was granted the right to establish a line of communications across Italy to Austria. Leghorn is the port of supply for this operation. The USFA Logistical

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Command Headquarters has let contracts only to non-Communist merchants, contractors, and suppliers. With the assistance of the Logistical Command Italian officials have established an autonomous, non-Communist section of the stevedore cooperative to handle Italian personnel employed by the Command to unload ships. A non-Communist union has been formed to provide contract labor for use in handling U.S. shipments, loading cars, warehousing, etc.

Maintenance of U.S. troops in Italy, in the Leghorn Logistical Command for U.S. Forces in Austria, in Naples, and in Trieste has made for complications in our efforts to maintain goodwill among the Italians. Inevitably the presence of U.S. troops in Italy has led to some friction with the civilian population. Even though this friction has been kept to a minimum, it has added grist to Communist propaganda. Steps taken to alleviate this situation have had good success.

The chief obstacle to strengthening Italy from a military viewpoint probably resides in the fact that the Italian people do not desire war in any form at any time. They would not welcome Soviet aggression, yet they regard such a possibility more lightly than do we.

SECTION IV

Psychological Operations

U.S. psychological operations have concentrated upon the creation of Italian attitudes favorable to the successful implementation of our national objectives. Through these operations the U.S. has sought to communicate and to extend the influence of U.S. policies and programs, when favorable, and to counter and limit the impact when unfavorable. Major objectives have been the support of democratic concepts and forces, the undermining of Communist power and influence, and the promotion of Italian ties with the West.

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Operations directed against Communist power and influence have been concentrated, particularly, in the trade union field. Propaganda and other support extended to the non-Communist trade unions have helped to strengthen the CISL and UIL and concurrently to weaken the CGIL. Certain steps have been initiated with a view to breaking the Communist hold on Italian cooperatives.

Other operations have contributed indirectly to the strengthening of the democratic parties. [Redacted] our operators have distributed propaganda of a more general nature, keyed to anti-Communist, pro-democratic themes. Information, cultural and exchange programs have helped to promote among Italians friendship and respect for the U.S. and its policies.

Effective steps have been taken to indoctrinate U.S. troops in Italy so that only a very few incidents have arisen from friction with the local population. Cooperation among all U.S. authorities in Italy has contributed to the success of this program. Likewise, the integration of USIS and MSA information programs has added to their combined effectiveness.

Budgetary allotments for the United States Information Service have fluctuated with consequent disruption of programs and personnel. Certain policy problems have added to the difficulties involved in establishing effective covert operations. Psychological warfare capabilities of the military services have not been used to fullest advantage. And although increasing use has been made of indigenous channels for psychological operations, to good effect, the question of how far and how fast this development should go remains unanswered.

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